

Research Update:

Swedish Property Company Akademiska Hus AB Ratings Affirmed At 'AA/A-1+' And 'K-1'; Outlook Stable

September 23, 2021

Overview

- We expect that Akademiska Hus AB will benefit from low vacancies and the finalization of major projects, improving its already-strong adjusted EBITDA margins.
- We assume that capital expenditure will decrease in the coming years, leading to lower financing needs.
- We therefore affirmed our 'AA/A-1+' and 'K-1' ratings on the company.
- The stable outlook reflects our expectation that Akademiska Hus' liquidity will remain strong, with continued prudent debt and liquidity management.

Rating Action

On Sept. 23, 2021, S&P Global Ratings affirmed its 'AA' long-term and 'A-1+' short-term issuer credit ratings on Swedish property company Akademiska Hus AB. The outlook is stable. At the same time, we affirmed our 'K-1' Nordic regional scale rating on the company.

Rationale

We expect that Akademiska Hus will benefit from very strong operating cash flow in the coming years, stemming from low vacancy rates and increasing rental income. We also believe that Akademiska Hus has passed a peak in capital expenditure (capex), which we expect will be lower in the next three years. In combination with improved operating cash flows and income from property sales in first-half 2021, we believe that this will lead to somewhat decreased debt through 2021-2022.

Akademiska Hus has hardly been affected by the COVID-19 pandemic. The number of international students has somewhat decreased, and education has been digitalized but, given the long-term nature of Akademiska Hus' leaseholds and its close interaction with tenants, this

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has not directly affected rental revenue. Moreover, a successful vaccine rollout and the loosening of restrictions mean students are now returning to campus, with applications to Sweden's universities having increased during the pandemic.

In line with guidelines in "General Criteria: Principles Of Credit Ratings," published Feb. 16, 2011, on RatingsDirect, we assess Akademiska Hus' enterprise risk and financial risk profiles and the components of its stand-alone credit profile (SACP) by benchmarking against factors we consider in our "Criteria | Governments | General: Methodology For Rating Public And Nonprofit Social Housing Providers," published June 1, 2021.

We see a high likelihood that Akademiska Hus would receive timely and sufficient support from its owner, Sweden (unsolicited; AAA/Stable/A-1+), if it experienced any financial distress. This results in a rating that is one notch higher than the SACP.

In our view, Akademiska Hus operates in a low-risk segment of the real estate industry. This is given continued population growth and strong demand for academic study, which create the need for purpose-built university premises and student housing. With a 60% market share, the company is by far Sweden's largest provider of properties for universities and colleges, with holdings of land in and around campus areas. This makes it the natural provider of additional properties on campus. Most tenants are universities, which in Sweden are operated as government agencies. Overall, this leads to stable operations and we expect that vacancies will remain low, following the completion of major projects, improving Akademiska Hus' already strong operating cash flows.

We view Akademiska Hus' management as very competent. We expect continued structurally high demand for university properties, and Akademiska Hus also benefits from having very few competitors. It has very well-established cooperation and long-term relationships with its tenants, focused on delivering purpose-built premises. Furthermore, the company has proactive debt management, with a conservative maturity profile and well-managed interest rate risk and fully hedged currency risk.

Akademiska Hus operates in a very stable business segment, with tailor-made premises that guarantee long-term relationships with its tenants. This enables stable revenue streams, which are key to our assessment of the company.

We assess the regulatory framework for Swedish real estate companies with a clear public-policy focus as strong, underpinned by their public-policy mandate to provide properties for their owner governments' operations. We see the owner governments as actively involved in defining strategy, while demonstrating a long-term commitment to compliance with goals and strategies, by means such as appropriate capital withdrawals (dividends) and capital injections.

The average remaining term of Akademiska Hus' lease contract portfolio is six years. In addition, the company applies a conservative approach to project management. New investments typically start after signing a lease contract with the tenant, and the company can offer an internal alternative plan of use for properties, which further decreases project risk after completion. These portfolio characteristics lead to highly predictable revenue from ongoing operations, including our forecast on EBITDA of about 68% of revenue in 2021, up from 65% in 2020. We expect the EBITDA margin to increase through higher future profitability in projects that are about to be finalized. Akademiska Hus is about to finalize a period of high investments and we expect capex will decrease in the coming years to an average of Swedish krona (SEK) 2.3 billion per year through 2021-2023, compared with SEK3 billion in 2019-2020.

As Akademiska Hus completes more projects, we expect yearly revenue growth of 4% through 2021-2023. At the same time, we expect the debt burden to temporarily decrease in 2021-2022, mainly related to property sales in first-half 2021, and then increase again in 2023 and beyond to

cover future capex and dividends.

We continue to regard as positive the high likelihood of Akademiska Hus receiving extraordinary support from the Swedish government. We base our view of the likelihood of support on Akademiska Hus' important role in the economy, since the company has a recognized and dominant position in supplying Sweden's higher education sector with technically advanced and cost-efficient properties. Moreover, higher education is a top priority for the state, meaning we see Akademiska Hus' operations as vital for the fulfillment of government policy in this area. We also take into account the company's very strong link to the Swedish government, which fully owns Akademiska Hus. We see the government as actively involved in defining Akademiska Hus' strategy and appointing board members, while demonstrating a long-term commitment to the company.

Liquidity

We assess Akademiska Hus' liquidity as very strong, with liquidity sources covering uses 1.6x over the next year. The company has strong cash generating capacity that we forecast at SEK4.7 billion over the coming 12 months, together with SEK4 billion in bank accounts and short-term investments, and bank liquidity facilities of SEK6 billion available within 12 months. The company's available liquidity sources over the coming 12 months total SEK14.7 billion, which should amply cover its liquidity outflows. In liquidity uses, we include capex, maturing debt, dividends, and interest expenses totaling SEK9.2 billion over the same period.

In addition, the company has strong access to capital market funding. However, if Akademiska Hus is unable to tap the markets for financing, we would expect its owner to postpone dividend payments, enabling the company to prioritize debt repayments until it can again obtain external financing.

Outlook

The stable outlook reflects our expectation that Akademiska Hus' liquidity will remain very strong, supported by prudent debt and liquidity management. We also expect that the company will gradually adapt to potential future changes to its customers' needs, supporting solid financial performance. Furthermore, we assume that Sweden will remain the sole owner of Akademiska Hus and the likelihood of extraordinary government support for the company will remain high.

Downside scenario

We could consider a negative rating action if Akademiska Hus' link with, or role for, the government of Sweden weakens. We could also consider a negative rating action if we see significant deterioration in financial performance that could impact credit metrics and our assessment of management.

Upside scenario

Ratings upside would depend on positive cash flow after capex and dividends, leading to sustained debt repayment. A change in our assessment of the likelihood of support from the government to very high from high could also result in a higher rating, all else being equal.

Akademiska Hus--Key Statistics

(MIL. SEK)	--Year ended Dec. 31--				
	2019a	2020e	2021e	2022bc	2023bc
Vacancy rates (%)	2.4	2.4	2.2	N.A.	N.A.
Revenue	6217	6418	6707	6942	7150
EBITDA	4050	4386	4604	4781	4938
EBITDA/revenue (%)	65.2	68.3	68.6	68.9	69.1
Interest expense	924	621	513	514	525
Debt/EBITDA (x)	8.6	8.5	7.9	7.8	7.6
EBITDA/interest coverage (x)	4.4	7.1	9.0	9.3	9.4
Capital expense	3191	2795	2500	2500	2000
Debt	34948	37091	36191	37191	37691
Housing properties (according to balance sheet valuation)	91424	99611	106000	108500	110500
Loan to value of properties (%)	38.2	37.2	34.1	34.3	34.1
Cash and liquid assets	4337	3677	3804	3948	4116

SEK--Swedish krona. a--Actual. e--Estimate. bc--Base-case scenario. N.A.--Not available.

Related Criteria

- Criteria | Governments | General: Methodology For Rating Public And Nonprofit Social Housing Providers, June 1, 2021
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- General Criteria: Rating Government-Related Entities: Methodology And Assumptions, March 25, 2015
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011
- General Criteria: Stand-Alone Credit Profiles: One Component Of A Rating, Oct. 1, 2010

Related Research

- Regulatory Framework Assessment: Government-Owned, Public Policy-Focused Real Estate Companies In Sweden, Sept. 23, 2021

Ratings List

Ratings Affirmed

Akademiska Hus AB

Issuer Credit Rating AA/Stable/A-1+

Nordic Regional Scale --/--/K-1

Ratings Affirmed

Senior Unsecured	AA
Commercial Paper	A-1+

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. A description of each of S&P Global Ratings' rating categories is contained in "S&P Global Ratings Definitions" at https://www.standardandpoors.com/en_US/web/guest/article/-/view/sourceld/504352 Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column. Alternatively, call one of the following S&P Global Ratings numbers: Client Support Europe (44) 20-7176-7176; London Press Office (44) 20-7176-3605; Paris (33) 1-4420-6708; Frankfurt (49) 69-33-999-225; Stockholm (46) 8-440-5914; or Moscow 7 (495) 783-4009.

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